

OUTLIVING YOUR INCOME



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One of the most common fears people share when considering retirement is the very real possibility of outliving the money they've worked so hard to save.

One of your main concerns when planning retirement is to ensure your money lasts throughout your life. After all, you worked hard and saved your entire life—you shouldn't have to worry about reducing your lifestyle.

Making sure your retirement is properly funded remains an ongoing challenge given the number of risks and concerns you'll face—risks like market volatility and economic uncertainty. On top of that, we're living longer than we used to.

The steady income for life provided by company pension plans—if you were lucky enough to have one—countered some of those risks, but pensions are disappearing from the American landscape. Today, only 26 percent of American workers have access to a defined-benefit pension plan, according to a Bureau of Labor Statistics survey in 2018.

Even with all of the risks and concerns a person has as they face retirement, and even in the absence of a pension, there is some good news: You can get that kind of protected monthly income by investing in an annuity.

"Put simply, an annuity is the only financial product that can generate income that will last as long as someone may live, whether that is to age 80, 90, 100 or 110," explains Frank O'Connor, vice president of research and outreach at the Insured Retirement Institute.

Annuities are long-term investments offered by insurance companies that can provide this lifetime guarantee because they're able to pool the risk among a wide range of individuals.

Allocating a portion of your retirement savings into an annuity also helps avoid a second issue associated with working with lump sum investments, says William G. Gale, the Arjay and Frances Miller Chair in Federal Economic Policy and Director of the Retirement Security Project at the Brookings Institution think tank in Washington, D.C.

If you draw down your lump-sum savings too aggressively, and live longer than you expected, you might have to rely on less in your later years, he says. But, conversely, if you draw down your savings too conservatively and pass away earlier than you expected, your thrift will have been unnecessary and you won't have enjoyed your retirement years as much as you could have.

Having some portion of your retirement assets in an annuity reduces these two risks, Gale says. You can have a standard of living that's higher than in the conservative draw-down case and be assured that protected lifetime income will last as long as you do.

O'Connor believes that the temptation to overspend is greater when you see your savings as a lump sum. "Retirement savings will seem like financial windfall at first," he says, "but using that 'pot of gold' without a plan creates a high probability of exhausting those savings while you still need them."

Annuities can also protect you from outliving your income in retirement by decreasing your need to make financial decisions late in life. "We're all vulnerable to the challenges of old age," says Jack Dolan, vice president of the American Council of Life Insurers.

Remember—not all annuities are alike. For example, some annuities provide a family benefit, beyond one person’s life, whether a joint benefit or a death benefit. Your need for an annuity will also depend on your other sources of retirement income, such as Social Security, required minimum distributions from retirement plans and other sources of regular income. So confer with a financial professional before investing in an annuity.

Whatever your asset mix is, all retirement planning comes down to one thing: being more secure. The protected lifetime income of an annuity can free you to focus less on financial concerns and more on enjoying your golden years to the fullest.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company.

Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½.

Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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